DAWSON COMMUNITY COLLEGE

DAWSON COUNTY, MONTANA

Fiscal Year Ended June 30, 2007

AUDIT REPORT

Prepared Under Contract With:
MONTANA LEGISLATIVE BRANCH, AUDIT DIVISION
PO Box 201705, Helena MT 59620-1705

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Angie Grove

December 2007

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of Dawson Community College for the fiscal year ended June 30, 2007.

The audit was conducted by Denning, Downey & Associates, CPA's PC under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

07C-09

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DAWSON COMMUNITY COLLEGE

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AUDIT REPORT

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DAWSON COUNTY, MONTANA

Fiscal Year Ended June 30, 2007

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DAWSON COMMUNITY COLLEGE

DAWSON COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2007

BOARD OF TRUSTEES

COLLEGE OFFICIALS

Dr. James Cargill	President
Justin Cross	Dean of Administrative Services
Bonnie Rieger	Assistant Business Manager

DAWSON COMMUNITY COLLEGE
DAWSON COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDING JUNE 30, 2007

Dawson Community College is a comprehensive, open access, publicly supported institution of higher education dedicated to serving the needs of those who seek enrichment through educational opportunities. The College exists to address individual needs, interests, and abilities while enhancing the economic, social and cultural attributes of the diverse communities it serves. The College accomplishes this purpose by providing high quality, affordable, flexible programs and services which are academically, and geographically accessible. This purpose requires a strong commitment to the teaching and learning process by a service driven philosophy in a supportive environment.

Financial and Other College Highlight

Major Building Expansion:

The largest building expansion in the history of the College was substantially completed during the spring of 2007. The expansion project included a new gymnasium, performing arts center and an addition to the library/learning center. The initial planning stages of the project began in the fall of 1999. The final phases of construction were finished in the spring of 2007. This project was paid for by the taxpayers of the community college district, students, alumni and donors.

History:
In the spring of 2002, the Board of Trustees appointed a fourteen-member ad hoc committee, the Facilities Expansion Committee, to help identify facility needs at the College. After approximately six months of study and analysis, the committee submitted its recommendations to the Board of Trustees. The recommendations cited the need for a new physical education center, a new performing arts center, and the construction of a joint library/learning center complex. The Board adopted the committee's recommendations at its meeting in August, 2002.

The original estimated cost to construct these three facilities was $6.3 million. As a major means to acquire the funds needed for this project (the largest ever undertaken by College), the Board authorized the pursuit of a four million dollar general obligation bond campaign. The committee believed that $4 million was the maximum amount that the taxpayers would approve. From the end of August through October of 2002, the College engaged in a major marketing and publicity campaign to get the voters of the community college district to pass a four million dollar bond issue. On November 2, 2002, the voters approved the $4,000,000 bond issue.

November 13, 2003 was the initial bid opening date for the new gymnasium and performing arts centers. The lowest base bid was $5,436,000 on the initial estimate of $4,600,000. The Board of Trustees rejected the bids based on the large disparity between estimates and the lowest actual bid.

The second round of bids was opened for consideration on June 15, 2004. The low bid of $5,092,000 was submitted by Fisher Construction. This bid was approximately $460,000 over the revised estimate. The bids were taken under advisement

The review committee was directed to reevaluate the project and submit recommendations that would bring the cost of the project in line with the revised budget. On June 28, 2004 the Board reviewed and approved some of the items that were value engineered out of the initial bid process. The revised amount of the bid for the gym/performing arts center was $4,855,102. The Board also accepted the recommendations for deferring equipment and landscaping. It was noted that the current budget for the library/learning center was based on a smaller sized project than was being considered by the Board. The larger sized project would increase the overall budget by approximately $300,000. With the final revisions the project budget of $6,303,000 was deemed to be in balance. The Board then approved the revised bid and let the contract.

Bids for the library/learning center portion of the expansion project were received on February 28, 2006. The low bid exceeded the budget by approximately $75,000. The bids were taken under advisement.

The contracts for the library/learning center were signed on March 20, 2006. The budget for this portion of the expansion project was set at $900,323. Additionally, the Board approved restoring approximately $227,000 to the total budget for upper bleachers in the gymnasium and stage lighting and curtains in the performing arts center. As of June 30, 2007, the total budget for the expansion project was $6,980,891.

On July 26, 2004, with the cost of the major portion of the project set by bid, the Board authorized the sale of the $4,000,000 general obligation school building bonds. The sale of the bonds occurred on August 18, 2004. The interest rate on the bonds was projected to be 5%. At the date of sale the true interest cost on the bonds was bid at 3.99969%.

In March of 2004 the application for a $500,000 INTERCAP loan was submitted for consideration. On June 15, 2004 the Montana Board of Investments approved the College's request for a $500,000 INTERCAP loan. As of June 30, 2006 Dawson Community College had requested and received INTERCAP loan proceeds of $500,000. This is a ten year loan with an adjustable interest rate. The average loan rate for the past ten years has been 4.160%. The interest rate as of June 30, 2006 was 4.75%. The loan will be paid from the $7.00 per credit Student Building Fees.

In the winter of 2003, the College began the process of preparing a loan application for a $400,000 Rural Economic Development Loan and Grant. This is a 20 year, zero interest loan. It will be serviced from the $7.00 per credit increase in Student Building Fees. On September 10, 2004 the loan agreement and note was signed by the College and Mid-Rivers Cooperative.

Part of the financial package includes $192,000 (60% of $320,000) from the proceeds from the Harold Ullman Revocable Trust. The terms and conditions of the trust set aside 60% of the proceeds for building expansion projects. The Board earmarked the full 60% for this project.

In addition to the aforementioned funds, the Associated Student Body approved the use of $758,791 in accumulated Student Building Fees. The Board also authorized the use of $150,000 from the Incidental Fees Fund, $100,000 from the Library Fee Fund, $300,000 from one-time funding from the State Legislature, and $85,000 from general fund budget savings. Donations, pledges and interest earnings are the final component of the $6,980,891 funding package.

During the first bidding process the College became aware of the requirement that domestic water pressure would have to meet State regulations and that the existing water pressure was inadequate to service the planned expansion. The College approved construction of a water pressure booster station. The booster station was completed in April of 2006. The final cost of this project was $392,141. The College submitted and was granted an $180,000 INTERCAP loan for a portion of the construction cost. This loan will be serviced from student fees.

Outreach and Distance Education:
The College has implemented an Outreach program at the Watch East, a six month alcohol treatment center. The Outreach and Distance Education Director has created a program that is being offered on site to all 42 residents. The first graduation is scheduled in early 2008. During the year the Outreach and Distance Education Director planned and conducted classes in computer technology at the Dawson County Senior Citizens Center. A broader range of offerings are scheduled to begin during the 2008 fiscal year.

Program Development:
In the winter of 2006, the Board of Trustees approved the Engineering Technology program and the Music Technology program. The programs were introduced during the 2007 fiscal year. These programs have met enrollment projections and have potential for strong enrollment growth. The College has redesigned several existing programs to better meet the needs of the energy driven economy.

Grants:
The College working in partnership with Billings College of Technology has been awarded a three year Workforce Innovation in Regional Economic Development (WIRED) grant to spur the evolution of Montana's workforce through the creation of innovation in bio-product technology. The College is developing training and education opportunities that will provide workers with the skill and abilities needed in the bio-product and biofuels energy industry.

The College working in partnership with Billings College of Technology has been awarded a three year Community-Based Job Training Grant to build Montana's energy workforce. The College is creating educational opportunities that will focus on the training and development of worker in the energy industry.

The College has partnered with the University of Montana, College of Technology to develop and offer programs in energy technology. The College has developed and is offering a two year degree in Energy Technology.

Enrollment (FTE):
During the 2007 fiscal year, the College has experienced a 20.3 percent decline in enrollment to 353 resident FTEs. This down turn can be directly attributed to the overall decline in the population of students bound for college, a strong energy related job market in Eastern Montana that is pulling perspective students away from college opportunities, and a decline in enrollment is linked to specific programs. One of the specific programs is the Farm/Ranch Business Management program. In the fall of 2002 the College initiated the Farm/Ranch Business Management program. This program is delivered on site with one-on-one instruction. In 2005 the program had six separate sites in Eastern Montana that generated approximately 90 FTE, and was a major reason for the record enrollment that year. However, in 2007 the program had two sites with 31 FTE. It appears that the program has satisfied market demand. All three of these factors have contributed to the decline in FTE and resulting reductions in tuition and fees at the College.

Reading the Annual Financial Report

Accounting Standards

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of the College's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the College's financial condition and result of operations for the fiscal year ending June 30, 2007. Comparative numbers, where presented, are for the fiscal years ending June 30, 2006 and 2007. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. College management is responsible for all of the financial information presented, including this discussion and analysis.

In June 1999, GASB issued Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities—an Amendment of GASB Statement 34, which applied the new reporting standards to public institutions. These new reporting standards are effective for fiscal year 2003 and as such comparative data will include fiscal years 2006 and 2007.

These financial reporting standards significantly changed the appearance and nature of the required financial information compared to prior standards. The major changes were: (1) financial statement are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, whereas previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by these accounting pronouncements, the basic financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the College's activities.

How the Financial Statements Relate to Each Other

The basic financial statements referred to above are presented using the accrual basis of accounting. The accrual basis of accounting is a method of accounting which attempts to match revenues with expenses by recognizing revenue when a service is rendered and expense when the liability is incurred irrespective of the receipt or disbursement of cash. For example, revenue would be recognized when a student registers for a class not when the student ultimately pays for that class. Amounts that remain unpaid are recorded in accounts receivable. When final payment is received the balance in accounts receivable associated with the individual student will be zero.

The basic financial statements referred to above are interrelated and should be viewed in their entirety. However, each of the financial statements is unique and presents the financial information according to the purpose of the individual statement. The fundamental relationships between the statements are described below. The Statement of Net Assets presents a snap shot of the financial condition of the College on June 30. The Statement of Revenues, Expenses, and Changes in Net Assets present the results of activities for the College throughout the fiscal year. The Statement of Cash Flows summarizes activities that generate and consume cash (illustrating net cash inflow and outflow activities) during the fiscal year.

Statement of Net Assets

The Statement of Net Assets presents the College's assets, liabilities, and net assets as of the fiscal year end. The purpose of this statement is to present to the financial statement readers a snapshot of the College's financial position at June 30, 2007. The data presented in the Statement of Net Assets aids in determining the assets available to continue the College's operations. It also allows readers to determine how much the College owes to vendors and creditors. Finally, the Statement on Net Assets provides a picture of net assets and their availability for expenditure by the College. Sustained increases in net assets are one indicator of an organization's financial health.

Net assets are divided into three major categories. The first "Invested Capital Assets, Net of Related Debt," represents the College's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of Invested Capital Assets, Net of Related Debt. The second category is "Restricted Net Assets," which is divided into two categories, Expendable and Nonexpendable. Expendable restricted assets include resources the College is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. Nonexpendable Restricted Nets Assets consist of endowments and similar type funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to the principal. Unrestricted Net Assets represent resources used for the College's general operations. They may be used at the discretion of the College's Board of Trustees to meet current expenses for any lawful purpose in support of educational and general and auxiliary activities.

The following is a summary of the Statement of Net Assets for each fiscal year:

Condensed Statement of Net Assets

	At 6/30/07	At 6/30/06
Total Current Assets	$ 2,085,841	$ 3,633,327
Total Non-Current Assets	$ 13,384,140	$ 11,838,976
TOTAL ASSETS	**$ 15,469,981**	**$ 15,472,303**
Total Current Liabilities	$ 456,250	$ 793,081
Total Non-Current Liabilities	$ 5,906,592	$ 6,311,624
TOTAL LIABILITIES	**$ 6,362,842**	**$ 7,104,705**
Invested in capital, net of related debt	$ 4,995,368	$ 3,778,094
Restricted-expendable	$ 2,552,877	$ 1,938,152
Unrestricted	$ 1,558,894	$ 2,651,352
TOTAL NET ASSETS	**$ 9,107,139**	**$ 8,367,598**

Information significant to reading the Statement of Net Assets:

- The $1,547,486 reduction in Current Assets are primarily the results of paying construction costs related to the facility expansion project, funding new programs from the proceeds from the Harold Ullman Trust, and reversions for unearned State reimbursement.

- The $1,545,164 increase in Total Non-Current Assets is primarily due to the newly constructed buildings and the increase in the value of investments from the proceeds from the Harold Ullman Trust.

- The reduction in Total Current Liabilities is primarily the results of paying back the reversion for unearned State reimbursement during fiscal year 2006.

- The reduction in Total Non-Current Liabilities is primarily the results of payments made to service debt.

- The Net Assets Invested in Capital, Net of Related Debt is primarily made up of the value of buildings and land held by the College less accumulated depreciation and net of debt balances related to the capital assets. The increase is mainly from the cost of constructing the new buildings.

- Restricted-expendable Net Assets are held primarily in the grant and debt service activities of the College.

- Unrestricted Net Assets is made up of operating activities, auxiliary activities, and also numerous designated activities which include funds designated as follows:

1. **Student Activity Fee** – Any change in the Student Activity Fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. The Student Activity Fee is allocated and deposited into five separate agency accounts; 46% to Associated Student Body, 25.75% to Athletics, 12.75% to Publications, 12.75% to Institutional, and 2.75% to Theatre. The Student government administers the Associated Student Body account, and the Board of Trustees or their designee administers the remaining accounts.
2. **Library Fees** – Any change in the Library Fee must be approved by the Board of Trustees, and the Board of Regents. Library Fees are intended to augment, not replace, basic operating expenses of the library and may be used for:

    a. Consumable supplies
    b. Periodicals and holdings
    c. Equipment and improvements

    The annual amount budgeted from Library Fees is based on anticipated revenues generated from projected annual enrollment.

    Library Fees are not intended for continuing personnel costs

3. **Student Building Fees** – Any change in the Student Building Fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. Student Building Fees are collected specifically for the purpose of purchasing land, new construction, and making improvements to existing facilities. Use of Student Building Fees requires the approval of the Associated Student Body, the Board of Trustees, and the Board of Regents.

4. **Computer Fees** – Any change in the Computer Fee must be approved by the Board of Trustees, and the Board of Regents. Computer Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the College's IT/AS400 system. This system is primarily used for student records and the payroll and general accounting record keeping.

5. **Building Repairs and Maintenance Fees** – Any change in the Building Repairs and Maintenance Fee must be approved by the Board of Trustees, and the Board of Regents. Building Repairs and Maintenance Fees are for major repairs or maintenance of College owned building and grounds. This fee would typically be used for major renovations and repairs.

6. **Technology Fees** – Any change in the Technology Fee must be approved by the Board of Trustees, and the Board of Regents. Technology Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the educational process.

Statement of Revenues, Expenses, and Changes in Net Assets

The operating and nonoperating activities creating the changes in the College's total net assets are presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains and losses from investment and capital assets activities.

Generally, operating revenues are received for providing goods and services to students and other constituencies of the College. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the College's mission.

Nonoperating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the College's operating expenses. Therefore, the College, like most public institutions, will expect to show an operating loss.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	For Fiscal Year Ending 6/30/07	For Fiscal Year Ending 6/30/06
Operating Revenues	$ 3,177,163	$ 3,899,911
Operating Expenses	$ (6,455,479)	$ (6,489,862)
Operating Loss	$ (3,278,316)	$ (2,589,951)
Net Nonoperating Revenues/(Expenses)	$ 3,588,309	$ 3,417,509
Income before other revenues, expenses, gains or losses	**$ 309,993**	**$ 827,558**
Transfers	$ 223,106	$ -
Change in Net Assets	**$ 533,099**	**$ 827,558**
Net Assets - Beginning of Year	$ 8,367,598	$ 7,540,040
Restatements	206,442	-
Net Assets - End of Year	$ 9,107,139	$ 8,367,598

Information regarding specific revenue and expense items:

- Tuition and fees: Tuition for all students was increased for fiscal year 2007. All tuition rates were increased twelve percent over the previous fiscal year. The tuition increase did not compensate for the loss in tuition revenues resulting from the decrease in enrollment. Additionally, fee revenue decreased resulting in the decline in Tuition and fees operating revenue. The College realized a 20.3 percent decline in enrollment for fiscal year 2007.

- Salaries and Benefits: The College granted employees a three and one half percent salary increase. In an effort to create savings three positions remained vacant for the fiscal year.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the College's cash activity during the year. Operating cash flows will always be different from the operation loss on the Statement of Revenues, Expenses, and Changes in Net Assets. This difference occurs because the Statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting and includes non-cash items such as depreciation expense, and the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows assists readers in assessing the ability of an institution to generate future cash flows necessary to meet obligations and evaluate its potential for additional financing.

The statement is divided into five sections. The first section shows the net cash provided (used) by the College's operating activities. The next section reflects the cash flows from noncapital financing activities and includes state appropriations for the College's educational and general programs and financial aid. This section reflects the cash received and spent for items other than operating, investing, and capital financing purposes. Cash flows from capital financing activities present cash used for the acquisition and construction of capital and related items. The next sections shows cash flows related to purchases, proceeds, and interest received from investing activities. The final section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Statement of Cash Flows

	For Fiscal Year Ended 6/30/2007	For Fiscal Year Ended 6/30/2006
Cash Provided (Used) by:		
Operating Activities	$(3,324,832)	$ (2,294,435)
Noncapital Financing Activities	3,681,625	3,369,759
Capital and Related Financing Activities	(1,613,805)	(3,560,223)
Investing Activities	449,919	279,405
Net Increase (Decrease) in Cash	$ (807,093)	$ (2,205,494)
Cash and Cash Equivalents, Beginning of Year	$ 4,692,550	$ 6,898,044
Cash and Cash Equivalents, End of Year	$ 3,885,457	$ 4,692,550

Pending Economic and Financial Issues

Population:
The College will continue to face challenges due to the declining population in Eastern Montana. Additionally, the average age of the remaining population is projected to increase. The College will continue to explore avenues to attract students to the campus and to offer a greater variety of age appropriate courses.

State Funding:
The three community colleges were successful in making positive changes to the community college funding mechanism. However, the level of State funding still creates challenges for community colleges. This environment requires the College to continually pursue alternative funding sources and to seek opportunities for growth.

Student Records and Management System:
The College is in need of a student records and management system that meets current standards and has potential for future growth. The current system was acquired in the 1980s and has limited capacity. The College is researching alternative systems.

Faculty and Staff:
The College's compensation and benefits package is not competitive with other institution in the region. This situation has made it difficult to attract preferred candidates for vacant positions. This is an ongoing concern of the College.

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Dawson Community College
Dawson County
Glendive, Montana

We have audited the accompanying financial statements of the business-type activities, of Dawson Community College, Dawson County, Montana, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Dawson Community College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Dawson College Foundation Inc., which is a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Dawson Community College Foundation Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our report and the report of other auditors the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and discretely presented component units of Dawson Community College, Dawson County, Montana, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Robert K. Denning, CPA · Kim M. Downey, CPA

The management's discussion and analysis on pages 2 through 11, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements and Schedule of Expenditures of Student Financial Assistance Programs are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and we express no opinion on them. The accompanying Schedule of Enrollment Statistics is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Denning, Downey and Associates, CPA's, P.C.

December 21, 2007

Dawson Community College, Dawson County, Montana
Statement of Net Assets
June 30, 2007

		Business-Type Activities
ASSETS		
Current Assets:		
Cash and investments	$	1,332,580
Taxes receivable		26,717
Tuition receivable		306,252
Accounts receivable		47,489
Student loan receivable		89,128
Grants receivable		185,667
Inventories		98,008
Total current assets	$	2,085,841
Noncurrent assets:		
Restricted cash and investments	$	2,552,877
Capital assets - land		137,518
Capital assets - depreciable, net		10,693,745
Total noncurrent assets	$	13,384,140
Total assets	$	15,469,981
LIABILITIES		
Current liabilities:		
Accounts payable	$	10,922
Accrued payables		83,146
Accrued payroll		25,789
Deposits payable		17,066
Interest payable		27,810
Current portion of long term capital liabilities		134,343
Current portion of compensated absences		157,174
Total current liabilities	$	456,250
Noncurrent liabilities:		
Noncurrent portion of compensated absences	$	205,040
Noncurrent portion of long-term capital liabilities		5,701,552
Total noncurrent liabilities	$	5,906,592
Total liabilities	$	6,362,842
NET ASSETS		
Invested in capital assets, net of related debt	$	4,995,368
Restricted		2,552,877
Unrestricted		1,558,894
Total net assets	$	9,107,139
Total liabilities and net assets	$	15,469,981

See accompanying Notes to the Financial Statements

Dawson Community College, Dawson County, Montana
Statement of Revenues, Expenses, and Changes in Net Assets
June 30, 2007

		Business-Type Activities
OPERATING REVENUES		
Tution and fees	$	839,633
Federal grants and contracts		1,256,914
State grants and contracts		49,067
Private and local grants and contracts		135,648
Auxiliary activities:		
Bookstore		145,414
Dormitory		222,125
Administrative fees		941
Other operating revenues		527,421
Total operating revenues	$	3,177,163
OPERATING EXPENSES		
Salaries	$	2,500,751
Benefits		821,065
Travel		183,578
Supplies		194,944
Contracted services		141,822
Postage		15,185
Rent and lease		22,788
Repairs and maintenance		101,340
Advertising		3,802
Telephone and utilities		159,636
Student support		454,331
Communications		30,345
Scholarships and grants		729,378
Equipment		115,983
Insurance		35,710
Indirect costs		26,533
Items for resale		76,504
Other operating expenses		291,465
Reversion		330,960
Depreciation expense		219,359
Total operating expenses	$	6,455,479
Operating income (loss)	$	(3,278,316)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	$	1,742,487
Local appropriation		1,702,173
Interest income		449,919
Debt service interest expense		(306,270)
Total non-operating revenues (expenses)	$	3,588,309
Income (loss) before contributions and transfers	$	309,993
Transfers	$	223,106
Change in net assets	$	533,099
Net assets - beginning	$	8,367,598
Restatements		206,442
Net assets - beginning restated	$	8,574,040
Net assets - ending	$	9,107,139

See accompanying Notes to the Financial Statements

Dawson Community College, Dawson County, Montana
Combined Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Cash flows from operating activities:		
Tuition and Fees	$	895,340
Grants and Contracts		1,374,689
Payments to Employees		(2,449,732)
Payments for Benefits		(821,065)
Payments to Suppliers		(1,686,486)
Payments for Utilities		(159,636)
Payments for Scholarships and Fellowships		(719,749)
Payments for Reversion		(330,960)
Other payments		(330,713)
Bookstore		145,414
Dormitory		229,704
Other receipts		528,362
Net cash provided (used) by operating activities	$	(3,324,832)
Cash flows from capital and related financing activities:		
Purchase of capital assets		(862,099)
Principal paid on Capital debt		(368,092)
Interest paid on capital debt		(383,614)
Net cash provided (used) by capital and related financing activities	$	(1,613,805)
Cash flows from non-capital financing activities:		
State Appropriations		1,742,487
Local Appropriations		1,716,032
Transfers between funds		223,106
Net cash provided (used) from non-capital financing activities	$	3,681,625
Cash flows from investing activities:		
Interest on investments		449,919
Net cash provided (used) by investing activities	$	449,919
Net increase (decrease) in cash and cash equivalents	$	(807,093)
Cash and cash equivalents at beginning		4,692,550
Cash and cash equivalents at end	$	3,885,457
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	(3,278,316)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		219,359
Changes in assets and liabilities:		
Tuition receivable		(161,945)
Grants receivable		(35,931)
Student loan receivable		9,629
Accounts receivable		217,652
Inventory		1,147
Accounts payable		(284,768)
Accrued payroll		22,983
Deferred revenue		(31,009)
Room deposits		7,579
Due to student organizations		(12,203)
Compensated absences		28,036
Due to other funds		(27,045)
Net cash provided (used) by operating activities	$	(3,324,832)

See accompanying Notes to the Financial Statements

A Component Unit of Dawson Community College
Statement of Financial Position
October 31, 2006

ASSETS		
Cash and Cash Equivalents	$	85,350
Investments in Marketable Equity Securities		508,895
Building Fund		40,557
Commitments Receivable - Building Fund		20
Total Assets	$	634,822
LIABILITIES		
Commitments Payable - General Fund	$	3,000
Due to Dawson College - Building Fund Donations		63,050
Total Liabilities	$	66,050
NET ASSETS		
General and Basic Funds	$	564,028
Building Fund		4,744
Total Net Assets	$	568,772
Total Liabilities and Net Assets	$	634,822

The accompanying Notes to the Financial Statements are an integral part of these statements

Dawson College Foundation Inc.
A Component Unit of Dawson Community College
Statement of Activities
For the Year Ended October 31, 2006

General & Basic Net Assets		
Revenues, Gains, and Other Support		
Dues	$	4,996
Contributions		55,725
Dividend Income and Net Unrealized Gains (losses)		16,575
Interest Income		15,442
Total Revenues, Gains and Other Support	$	92,738
Expenses		
Scholarships	$	22,242
Building Fund		35,800
Musical Instruments and Supplies		2,114
Teacher Development		2,614
Charitable Distributions		370
Fund Raising Expenses		402
Miscellaneous		24
Commitments Payable - Library		3,000
Total Expenses	$	66,566
Increase (Decrease) in General and Basic Net Assets	$	26,172
Building Fund - Net Assets		
Restricted Contributions	$	87,796
Due to Dawson College		(87,796)
Interest Income		1,896
Increase in Building Fund Net Assets	$	1,896
Increase (Decrease) in Net Assets	$	28,068
Net Assets - beginning of year		540,704
Net Assets - end of year	$	568,772

The accompanying Notes to the Financial Statements are an integral part of these statements

Dawson College Foundation Inc.
A Component Unit of Dawson Community College
Statement of Cash Flows
For the Year Ended October 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	$	28,068
Increase (decrease) in Net Assets		
Adjustments to reconcile change in Net Assets to net cash provided by operating activities:		
(Increase) Decrease in Accounts Receivable		13,068
Increase (Decrease) in Commitments Payable		908
Increase (Decrease) in Due to Dawson College		(175,178)
Net Cash Provided by Operating Activities and Nonoperating Revenues	$	(133,134)
CASH FLOWS FROM INVESTING ACTIVITIES		
(increase) Decrease in Investments	$	(34,831)
Proceeds from Sale of Investments		
Building Fund Increase		178,277
Net Cash Used by Investing Activities	$	143,446
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Cash Used by Financing Activities		
Net Increase in Cash and Cash Equivalents	$	10,312
Cash and Cash Equivalents - Beginning of Year		75,038
Cash and Cash Equivalents - End of Year	$	85,350

The accompanying Notes to the Financial Statements are an integral part of these statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The College complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds GASB statement Nos. 20 and 34 provide the College the option of electing to apply FASB pronouncements issued after November 30, 1989. The College has elected not to apply those pronouncements.

The College adopted the provisions of GASB #34 for its fiscal year ended June 30, 2007. Other GASB statements are required to be implemented in conjunction with GASB statement 34. Therefore the College is implementing the following statements for the year ended June 30, 2007: Statement 33 *Accounting and Financial Reporting for Nonexchange Transactions*, Statement 36 *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, Statement 38 *Certain Financial Statement Note Disclosures.*

Financial Reporting Entity

In determining the financial reporting entity, the College complies with the provisions of GASB statement No, 14, *The Financial Reporting Entity*, and includes all component units of which the College appointed a voting majority of the units' board; the College is either able to impose it's will on the unit or a financial benefit or burden relationship exists.

Primary Government

The College was established under Montana law to provide post-secondary educational services. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the College is a primary government as defined by GASB Cod. Sec. 2100 and has component units.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The component units listed below have a fiscal year ending June 30, 2007. The College has the following discretely presented component units:

Dawson Community College Foundation Inc.

Summary of Significant Accounting Policies

Dawson Community College Foundation Inc.

Organization
The Dawson College Foundation, Inc., has been organized to coordinate fund-raising activities for the local college. These include the long-term care of and building of additional facilities at the college location in Glendive Montana. The Foundation uses these funds to assist in purchasing needed educational equipment and supplies.

Basis of Accounting
The financial statements of the Foundation have been prepared on the accrual basis of accounting. Revenues and expenses are recognized and recorded when earned or incurred. The financial statements reflect unrestricted, temporarily restricted and permanently restricted net assets and activities. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board designated or appropriated amounts, are reported as part of the unrestricted class.

Contributions are recognized when the donor makes a promise to give the Foundation that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions.

Use of Estimates
Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments
Investments in equity securities with readily determinable fair values are measured at fair market value in the Statement of Financial Position. The unrealized gain or loss on investments is reflected in the Statement of Activities.

Cash and Cash Equivalents
For financial statement purposes, the Foundation Inc. considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Income Taxes
The Dawson College Foundation Inc. has been granted a letter of exemption by the Internal Revenue Service which qualifies it as a nonprofit organization.

Basis of Presentation, Measurement Focus and Basis of Accounting.

Dawson Community College

Proprietary Funds:
All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result form providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revues and expenses. When both restricted and unrestricted resources are available for use, it is the Colleges policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition
The majority of the College's cash, except for the $2,133,375 held with Edward Jones on behalf of the Program Development Fund is held by the County Treasurer and pooled with other County cash. The College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2007, consisted of time deposits, Government Securities, and the State Short-Term Investment Pool (STIP).

The College may invest in savings deposits, time deposits or repurchase agreements in financial institutions that are both located in Montana and insured by FDIC, FSLIC, or NCUA. The College may also invest in general obligations of the United States Government, Federal Home loan Bank, Federal National Mortgage Association, Federal Home Mortgage Corporation, and Federal Farm Credit Bank, or a U.S. government security money market fund which holds eligible securities in its investment program, or in a unified investment program with the state, county treasurer, or any other political subdivision as long as investments are eligible.

The investments described in the following summary do not meet the requirements as allowed investments, however, the County Attorney has determined that the College can maintain these investments until liquidated.

For purposes of the Statement of Cash Flows, cash equivalents include all cash and investments.

Deposits
The College's deposit balance at year end was $131,690 and the bank balance was $131,690 which was fully insured by FDIC.

Investments

Dawson Community College
The components of cash and cash equivalents as of June 30, 2007 are as follows:
All investments are carried at fair value.

Petty cash	$ 11,093
Demand Deposits	27,752
Certificates	43,115
Money Market	60,823
Held with the County Treasurer	1,733,945
Bonds	205
Investments:	
American Mutual	622,952
Federated Equity Income Fund	36,246
Investment Company of America	654,344
Lord Abbett Bond Debenture Fund	38,465
Washington Mutual Investors	656,517
Total	$ 3,885,457

Component Unit Investments
Investments consist of certificates of deposit, securities and mutual funds. Investments are stated at market value and unrealized gains and losses are reported as income. The investments are as follows:

Certificates of Deposit	$153,024
Marketable Equity Securities	355,871
	$508,895

NOTE 3. RECEIVABLES

Taxes

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the District. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

Tuition

An allowance for uncollectible tuition receivable was not maintained.

NOTE 4. INVENTORIES

Inventories are valued at cost using the First In First Out (FIFO) method.

The costs of inventories are recorded as an expenditure when consumed.

NOTE 5. CAPITAL ASSETS

The College's assets are capitalized at historical cost or estimated historical cost. College policy has set the capitalization threshold for reporting capital assets at $5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	50 years
Improvements	7-50 years
Equipment	4-20 years
Library	20 years

The following is a summary of capital assets:

	Balance July 1, 2006	Additions	Retirements	Adjustments/ Transfers	Balance June 30, 2007
Capital assets not being depreciated:					
Land	$ 137,518	$ -	$ -	$ -	$ 137,518
Construction in progress	180,582	1,195,399	-	(1,375,981)	-
Total capital assets not being depreciated	$ 318,100	$1,195,399	$ -	$ (1,375,981)	$ 137,518
Other Capital Assets:					
Buildings	$ 11,366,140	$ -	$ -	$ 1,343,907	$ 12,710,047
Improvements Other than Buildings	524,188	-	-	(121,080)	403,108
Machinery and Equipment	1,938,847	51,667	(38,890)	(1,090,886)	860,738
Library	380,488	-	-	(4,395)	376,093
Total other Capital Assets at historical cost	$ 14,209,663	$ 51,667	$ (38,890)	$ 127,546	$ 14,349,986
Less Accumulated Depreciation	$(4,545,682)	$(213,827)	$ 17,223	$ 1,086,045	$ (3,656,241)
Total	$ 9,982,081	$1,033,239	$ (21,667)	$ (162,390)	$ 10,831,263

NOTE 6. LONG TERM DEBT OBLIGATIONS

In the proprietary financial statements, outstanding debt is reported as liabilities.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2007, the following changes occurred in liabilities reported in long-term debt:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due within one year
General Obligation Bonds	$ 3,840,000	$ -	$(275,000)	$ 3,565,000	$ -
Contracted Debt	1,683,987	930	(66,203)	1,618,714	76,430
Intercap Loans	680,000	-	(27,819)	652,181	57,913
Compensated Absences	334,178	28,036	-	362,214	157,174
Total	$ 6,538,165	$ 28,966	$(369,022)	$ 6,198,109	$ 291,517

Loans/Contracted Debt

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2007
Stockman Bank *	02/21/2000	7.97%	25 yrs	02/21/2025	$ 700,000	$ 610,156
USDA Rural Development	02/21/2000	4.75%	40 yrs	02/21/2040	700,000	650,225
Mid Rivers Communication	10/25/2004	0.00%	10 yrs	10/25/2014	400,000	358,333
Total					$,800,000	$ 1,618,714

* The note payable to Stockman Bank of $700,000 originated on February 21, 2000. Payments of $65,298 including both principal and interest, are due on February 10 each year. The note will mature in 2025. This note is secured by the dormitory and its contents. This note is secured by deeds of trust on real estate and improvements of the student dormitories and adjacent parking area. The note is also secured by any fixtures and equipment located in the dormitories, along with an assignment of rental revenue from all of the student dormitories owned by the College.

Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
2008	$ 76,430	$ 73,597
2009	78,089	71,939
2010	79,854	70,173
2011	81,734	68,293
2012	83,734	66,293
2013	85,865	64,162
2014	88,133	61,894
2015	48,882	59,478
2016	43,122	56,905
2017	45,863	54,164
2018	48,782	51,245
2019	51,892	48,135
2020	55,205	44,822
2021	58,734	41,293
2022	62,495	37,532
2023	66,502	33,525
2024	70,773	29,254
2025	76,690	24,703
2026	19,653	19,757
2027	20,587	18,823
2028	21,565	17,845
2029	22,589	16,821
2030	23,662	15,748
2031	24,786	14,624
2032	25,963	13,447
2033	27,196	12,214
2034	28,488	10,922
2035	29,841	9,569
2036	31,259	8,151
2037	32,744	6,666
2038	34,299	5,111
2039	35,928	3,482
2040	37,375	1,775
Total	$ 1,618,714	$ 1,132,362

General Obligation Bonds

	Origination Date	Interest Rate	Term	Maturity	Principal Amount	Balance June 30, 2007
2004 Series	9/1/04	2.9-4.35%	18 yrs	7/1/22	$4,000,000	$3,565,000

Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
2008	$ -	$ -
2009	145,000	155,732
2010	155,000	149,732
2011	160,000	143,432
2012	165,000	136,932
2013	170,000	129,807
2014	180,000	121,932
2015	190,000	113,607
2016	195,000	105,335
2017	205,000	96,982
2018	215,000	87,949
2019	220,000	78,432
2020	230,000	68,417
2021	245,000	57,669
2022	255,000	46,167
2023	265,000	33,944
2024	280,000	20,930
2025	290,000	7,105
Total	$3,565,000	$1,554,104

Intercap Loans

Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

Intercap loans outstanding as of June 30, 2007 were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2007
Montana Board of Investment #1	05/06/2005	4.75%	10 yrs	08/15/2015	$180,000	$ 171,904
Montana Board of Investment #2	05/06/2005	4.75%	10 yrs	08/15/2016	500,000	480,277
Total					$680,000	$ 652,181

Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
2008	$ 57,913	$ 30,296
2009	60,695	27,513
2010	63,615	24,596
2011	66,672	21,538
2012	69,876	18,334
2013	73,232	14,977
2014	76,755	11,457
2015	80,443	7,768
2016	71,933	3,902
2017	31,047	737
Total	$ 652,181	$ 161,118

Compensated Absences

Non-teaching College employees earn vacation leave ranging from fifteen to twenty-four days per year depending on the employee's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of one day per month for non-teaching and teaching employees. Upon retirement or termination, employees are paid for 100% of unused vacation leave and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

NOTE 7. STATE-WIDE RETIREMENT PLANS

The College participates in two cost-sharing, multiple-employer defined benefit pension plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries with amounts determined by the State. Teaching employees (including principals and superintendents) are covered by Montana Teachers Retirement Plan (TRS), and substantially all other College employees are covered by the Montana Public Employees Retirement System (PERS). The plans are established by Montana law and administered by the State of Montana.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2007, were:

	PERS	TRS
Employer	6.80%	7.47%
Employee	6.90%	7.15%
State	0.10%	0.11%

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the College's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling:

1. Public Employees Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154
2. Teachers' Retirement System, P.O. Box 200319, Helena, Montana 59620-0139 Phone: 1-406-444-3134

Total contributions for the years ended June 30, 2005, 2006, and 2007, as listed below, were equal to the required contributions for each year.

	PERS	TRS
2005	$ 75,244	$ 234,570
2006	$ 80,856	$ 300,100
2007	$ 81,631	$ 240,848

NOTE 8. POST EMPLOYMENT BENEFITS

Terminated employees may remain on the College's health insurance plan for up to 18 months if they pay the monthly premiums. This benefit is required under the federal COBRA law. Retirees may remain on the College's health plan to age 65, provided they pay the monthly premiums. State law requires the College to provide this benefit. No cost can be estimated for the above benefits, although there is the probability that there are higher medical costs for retirees which would result in additional costs to the insurance program.

The College had 11 retired employees and no terminated employees participating in the plan as of June 30, 2007.

NOTE 9. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the College as of June 30, 2007:

Description	Amount
Student Activity Funds	$ 29,295
Dormitory	17,066
Program Development	2,133,375
Grants	78,471
Scholarship Funds	42,559
Retirement	218,849
Debt Service	33,262
Total	$2,552,877

NOTE 10. NET ASSETS

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses. The purpose for each is indicated below:

Restricted for	Amount
Student Activity	$ 29,295
Dormitory	17,066
Program Development	2,133,375
Grants	78,471
Scholarships	42,559
Retirement	218,849
Debt Service	33,262
Total	$2,552,877

Component Unit	
Restricted for Building Fund	$ 40,557

NOTE 11. RESTATEMENTS

During the current fiscal year the following adjustments relating to prior years transactions were made to net assets:

Amount	Reason for Adjustment
$ 930	Adjust long-term debt
162,390	Adjust capital assets
43,122	Adjust prior year revenues
$206,442	Total

NOTE 12. RISK MANAGEMENT

The College faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Polices:
Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the College has no coverage for potential losses from environmental damages.

NOTE 13. PENDING LITIGATION

There as no pending or threatened litigation or unasserted claims or assessments against the College as of June 30, 2007.

SUPPLEMENTAL INFORMATION

Dawson Community College, Dawson County, Montnana
Student Financial Aid Modified Statement
of Cash Receipts and Disbursements
For the Year Ended June 30, 2007
(Unaudited)

	PELL	PERKINS	CWS	SEOG
Beginning cash balance	$ 2,527	$ 7,744	$ 2,206	$ -
Additions:				
Federal advances	452,587	-	18,332	34,935
State matching funds	-	-	-	11,645
Interest Collected	-	1,049	-	-
Interest Investments	-	11	-	-
Principal Collected	-	11,510	-	-
Student Refunds	8,612	-	-	100
Total additions	461,199	12,570	18,332	46,680
Deductions:				
Distribution to students	459,756	2,563	17,860	46,680
Administrative expenses	-	-	2,083	-
Total deductions	459,756	2,563	19,943	46,680
Net change in cash	1,443	10,007	(1,611)	-
Ending cash balance	$ 3,970	$ 17,751	$ 595	$ -

Dawson Community College, Dawson County, Montana
Schedule of Expenditures
Student Financial Assistance Programs
For the Year Ended June 30, 2007
(Unaudited)

		2007
Perkins Loan Program		
Student Loan Advances	$	2,563
College Work Study		
Wages	$	17,860
Administrative Cost		2,083
	$	19,943
Supplemental Education Opportunity Grant Program		
Student Grants	$	46,680
Pell Grant Program		
Student Grants	$	459,756

Dawson Community College
Dawson County, Montana
Supplemenatl Information
Schedule of Full Time Equivalent
For the Year Ended June 30, 2007

Semester	Resident	WUE	Nonresident	Total
Summer 2006	35.9	1	0.4	37.3
Fall 2006	334.5	29.9	16.7	381.1
Spring 2007	334.8	19.1	30	383.9

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Dawson Community College
Dawson County
Glendive, Montana

We have audited the business-type activities, and discretely presented component units of Dawson Community College, Dawson County, Montana, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated December 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Robert K. Denning, CPA · Kim M. Downey, CPA

We consider the deficiencies listed below to be significant deficiencies in the internal control over financial reporting.

07-1 Tuition Receivable

Condition:
The College reported tuition receivable of $306,252. No allowance for uncollectible accounts was recorded. The College does not maintain subsidiary ledgers to support this amount.

Criteria:
Generally Accepted Accounting Procedures (GAAP) require that all amounts reported on the financial statements be adequately supported.

Effect:
Receivables are overstated by approximately $150,000.

Cause:
The College has not updated their allowance for doubtful collections.

Recommendation:
We recommend that the College review all the information available and establish an allowance for doubtful collections based on past collection history.

07-2 Accounting and Reporting Issues

Condition:
We noted the following accounting and reporting issues during the course of the audit:

Retirement liability:
- The College has a retirement liability that was not reported.

Compensated absences liability:
- Compensated absences liability did not include employer benefits.

Reversion liability:
- The College recognized a liability for reversion costs that it did not owe.

Computed Interest:
- The College has a 0% loan that interest was not computed for in accordance with GASB #11, paragraph 91.

Recording expenditures:
- Expenditures were reported in fiscal year 2006 that should have been reported in fiscal year 2007.

Criteria:
Generally Accepted Accounting Principles (GAAP) require the financial statements to include all information that may be considered material to the user.

Effect:
The audit report was not corrected for the above conditions, the effect on the financial statements is noted below:

Retirement liability
- Liabilities and expenses are understated by $27,664.

Compensated absence liability
- Liabilities and expenses are understated by $36,221.

Reversion Liability:
- Liabilities and expenses are overstated by $83,146.

Computed interest:
- Liabilities and expenses are understated by $78,808

Recording expenditures:
- Expenses and Net Assets are overstated by $74,709.

Recommendation:
We recommend that the financial statements be reviewed for completeness prior to issuance.

07-3 Financial Statement Reporting

Condition:
The financial statements had the following deficiencies:

- The balance sheet and income statement did not agree in 15 funds.
- In the *Student Aid Fund*, *Grants Receivable* and the related *Accounts Payable* account balances of $4,026,452 were not eliminated.
- The *Tuition Fees Clearing fund* had an account balance of $9,074,200 that was not closed at year end.
- $655,805 was reported as Due to/from funds was not eliminated in the consolidation of the funds.
- Long Term debt was overstated by $139,008.
- Capital Assets were overstated by $152,570.

Criteria:
Generally Accepted Accounting Standards (GAAP) require that all closing, adjusting and eliminating entries be made in order for the financial statements to accurately present the financial condition of the government.

Effect:
The above deficiencies were corrected for the audit report

Cause:
The College did not complete the adjusting, closing and eliminating entries prior to submission for the audit.

Recommendation:
We recommend that the College review and correct all funds and accounts for accuracy, and consolidate the financial statements for external presentation.

07-4 Overstatement of Revenues and Expenses

Condition:
The following transactions resulted in the College's net overstatement of revenues and expenditures:

Different fiscal years:

- Four funds had grant year ends that were different than the College. These funds included revenues and expenses for a period that was greater than the fiscal year of the College.

Loans between funds:

- The *program development fund* loaned money to five other funds. The loans were reported as expenses in the program development fund and revenues in the other five funds.

Closing funds at year end:

- The *Perkins Loan Fund* is not closed at the end of the prior fiscal year. As a result its revenues and expenses grow from year to year.
- The *plant fund* was not closed at the end of the prior fiscal year.
- The *scholarship fund* was not closed at the end of the prior fiscal year

Transfers between funds:

- Transfers between funds were miscoded to revenues or expenses.

Criteria:
Generally Accepted Accounting Principles (GAAP) requires revenues and expenses to be reported in the proper fiscal year and result from transactions outside of the entity.

Effect:
The conditions described above had the following effects on the financial statements:

Different fiscal years:

- The audit report has been corrected.

Loans between funds:

- The audit report has been corrected.

Closing funds at year end:

- Perkins Loan fund – The audit report has been corrected.
- Plant fund – The audit report has been corrected.
- Scholarship fund – The audit report has been corrected.

Transfers between funds:

- Revenues are understated by $206,442.

If the above corrections were note made to the audit report, the report would include a qualification for revenues and expenses.

Recommendation:
We recommend that the College review their reporting system and make any necessary changes to ensure that revenues and expenses are reported properly prior to submission for audit.

07-5 Internal Control Weaknesses

Condition:
We noted the following internal control weaknesses during the course of the audit:

1. Cash refunds were given to students during the registration process.
2. Fund raiser receipting did not include adequate support for all receipts. No collection reports or other supporting documentation for cash receipts was submitted to the Business Office with the cash.
3. Adequate support for Book Store receipts was not maintained. The Book Store attaches the cash register z-tape to daily deposits. However, the Business Office did not maintain a copy of the cash register tape.
4. Ticket Takers often take cash boxes home after the athletic event, and money is not submitted to the College until the next day.
5. Timely deposits were not made. Deposits are made monthly.
6. Lack of segregation of duties between preparation of deposits and taking the deposit to the bank. The same individual, who prepares the deposit also takes the deposit to the bank and reconciles the bank statement.
7. Access to the keys for the signature plate is not restricted. Keys to the signature plate are maintained in the vault. At least four individuals have access to the vault.

Criteria:
Internal controls should include procedures to ensure the safekeeping of assets, ensuring all receipts are secured, all receipts are deposited, and all disbursements are approved with proper signatures. In addition, all supporting documentation for receipts should be maintained.

Effect:
Internal Control is weakened.

Recommendation:

We recommend the following procedures be implemented:

1. Refunds to students should be made by check, rather than cash.
2. Supporting documentation for all fund raisers should be submitted to the business office.
3. A copy of the cash register tape, supporting book store deposits, should be maintained by the business office.
4. Cash boxes should never be taken home by employees. The cash boxes should be secured in a locked vault or safe, or placed in the drop box at the bank.
5. Deposits should be made at least weekly.
6. Someone other than the employee who reconciles the bank statement should take the deposit to the bank.
7. Keys to the signature plate should be maintained in two separate secured locations, and access to these locations should be restricted.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that of the significant deficiencies described above, items 07-3, 07-4 and 07-5 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Regents, management, the Legislative Audit Division, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Denning, Downey and Associates, CPA's, P.C.

December 21, 2007

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Trustees
Dawson Community College
Dawson County
Dawson City, Montana

The prior audit report contained one recommendation. The action taken on the recommendation is as follows:

Recommendation	Action Taken
Capitalization Policy	Implemented

Denning, Downey and Associates, CPA's, P.C.

December 21, 2007

Robert K. Denning, CPA · Kim M. Downey, CPA

Dawson
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December 20, 2007

Denning, Downey & Associates, P.C.
1740 US Highway 93 South Suite 101
Kalispell, MT 59901

Dear Mr. Denning:

The following is our response to the recommendation made in the 2007 audit report for Dawson Community College.

Finding #07-01 – Financial Statement Reporting

Condition:

The College's financial statements had the following deficiencies:

- The balance sheet and income statement did not agree in 15 funds.
- In the *Student Aid Fund, Grants Receivable* and the related *Accounts Payable* accounts balances of $4,026,452 were not eliminated.
- The *Tuition Fees Clearing fund* had an account balance of $9,074,200 that was not closed at year end.
- $655,805 was reported as Due to /from funds was not eliminated in the consolidation of the funds.
- Long Term debt was overstated by $139,008.
- Capital Assets were overstated by $152,570.

Criteria:

Generally Accepted Accounting Standards (GAAP) require that all closing, adjusting and elimination entries be made in order for the financial statements to accurately present the financial condition of the government.

Effect:

The above deficiencies were corrected for the audit report.

Cause:

The College did not complete the adjusting, closing and eliminating entries prior to submission for the audit.

Recommendation:

We recommend that the College review and correct all funds and accounts for accuracy, and consolidate the financial statements for external presentation.

Auditee Response:

The College recognizes the errors that appear above in the conditions section and acknowledge the corrections that were in made by the auditor on College's behalf. The College is taking steps that will help ensure these changes are made prior to subsequent audits.

Finding #07-02 – Overstatement of Revenues and Expenses

Condition:

The following transactions resulted in the College's net overstatement of revenues and expenditures:

- Different fiscal years:
  Four funds had grant year ends that were different that the College. These funds included revenues and expenses for a period that was greater than the fiscal year of the College.
- Loans between funds:
  The *program development fund* loaned money to five other funds. The loans were reported as expenses in the program development fund and revenues in the five other funds.
- Closing funds at year end:
  The Perkins Loan Fund is not closed at the end of the prior fiscal year. As a result its revenues and expenses grow from year to year.
  The *plant fund* was not closed at the end of the prior fiscal year.
  The *scholarship fund* was not closed at the end of the prior fiscal year
- Transfers between funds:
  Transfers between funds were miscoded to revenues and expenses.

Criteria:

Generally Accepted Accounting Principles (GAAP) requires revenues and expenses to be reported in the proper fiscal year and result from transactions outside of the entity.

Effect:

The conditions described above had the following effects on the financial statements:

- Different fiscal years:
  Revenues and expenses are overstated by $303,989.
- Loans between funds:
  Revenues and expenses are overstated by $348,060
- Closing funds at year end:
  Perkins Loan Fund – Revenues are overstated by $244,519, and expenses are overstated by $138,018.
  Plant fund—Revenues are overstated by $250,854.
  Scholarship fund –Revenues are overstated by $55,654.
- Transfers between funds:
  Revenues are understated by $147,519 and expenses are understated by $75,587.

As a result of the above transactions revenues were overstated by $1,055,554 and expenses were overstated by $714,477

Recommendation:

We recommend that the College review their reporting system and make any necessary changes to ensure that revenues and expenses are reported properly.

Auditee Response:

The College recognizes the errors that appear above in the conditions section and acknowledge the corrections that were in made by the auditor on College's behalf. The

College is taking steps that will help ensure these changes are made prior to subsequent audits.

Finding #07-03 – Internal Control Weaknesses

Condition:

We noted the following internal control weaknesses during the course of the audit:

- Cash refunds were given to students during the registration process.
- Fund raiser receipting did not include adequate support for all receipts. No collection reports or other supporting documentation for cash receipts was submitted to the Business Office with the cash.
- Adequate support for Book Store receipts was not maintained. The Book Store attaches the cash register z-tape to daily deposits. However, the Business Office did not maintain a copy of the cash register tape.
- Ticket Takers often take cash boxes home after the athletic event, and money is not submitted to the College until the next day.
- Timely deposits were not made. Deposits are made monthly.
- Lack of segregation of duties between preparation of deposits and taking the deposit to the bank. The same individual, who prepares the deposit also takes the deposit to the bank and reconciles the bank statement.
- Access to the keys for the signature plate is not restricted. Keys to the signature plate are maintained in the vault. At least four individuals have access to the vault.

Criteria: Internal controls should include procedures to ensure the safekeeping of assets, ensuring all receipts are secured, all receipts are deposited, and all disbursements are approved with proper signatures. In addition, all supporting documentation for receipts should be maintained.

Effect:

Internal Control is weakened

Recommendation:

We recommend the following procedures be implemented:

- Refunds to students should be made by check, rather than cash.
- Supporting documentation for all fund raisers should be submitted to the business office.
- A copy of the cash register tape, supporting book store deposits, should be maintained by the business office.
- Cash boxes should never be taken home by employees. The cash boxes should be secured in a locked vault or safe, or placed in the drop box at the bank.
- Deposits should be made at least weekly.
- Someone other than the employee who prepares the deposit should take the deposit to the bank.
- Keys to the signature plate should be maintained in two separate secured locations, and access to these locations should be restricted.

Auditee Response:

Concur, the College has initiated step to improve internal control procedures that will address the auditor's recommendations. Complete segregation of duties is difficult to accomplish in a small business office like Dawson Community College's. However, the College continually seeks solutions to challenges of this nature.

Finding #07-04 – Tuition Receivable

Condition:

The College reported tuition receivable of $306,252. No allowances for uncollectible accounts was recorded. The College does not maintain subsidiary ledgers to support this amount.

Criteria:

Generally Accepted Accounting Procedures (GAAP) require that all amounts reported on the financial statements be adequately supported.

Effect:

Receivables are overstated by approximately $150,000.

Cause:

The College has not updated their allowances for doubtful collections.

Recommendation:

We recommend that the College review all the information available and establish an allowance for doubtful collections based on past collection history.

Auditee Response:

Concur, the College Business Office has begun the process of creating a subsidiary tuition receivables ledger. The College has placed holds notices on transcripts for each individual that has a balance due to the College. Transcripts are not released unless outstanding balances are paid in full. The individual hold notices will form the basis of the subsidiary tuition receivables ledger.

Finding #07-05 – Accounting and reporting issues

Condition:

We noted the following accounting and reporting issues during the course of the audit:

Retirement liability;

- The College has a retirement liability that was not reported.

Compensated absences liability:

- Compensated absences liability did not include employer benefits.

Reversion liability:

- The College recognized a liability for reversion costs that it did not owe.

Computed Interest:

- The College has a 0% loan that interest was not computed for.

Recording expenditures:

- Expenditures were reported in fiscal year 2006 that should have been reported in fiscal year 2007.

Criteria:

Generally Accepted Accounting Principles (GAAP) require that financial statements to include all information that may be considered material to the user.

Effect:

The audit report was not corrected for the above conditions, the effect on the financial statements is noted below:

Retirement liability:

- Liabilities and expenses are understated by $27,664.

Compensated absences liability

- Liabilities and expenses are understated by $36,221.

Reversion liability:

- Liabilities and expenses are overstated by $83,146.

Computed Interest:

- Liabilities and expenses are understated by $78,808.

Recording expenditures

- Expenses and Net Assets are overstated by $74,707.

Recommendation:

We recommend that the financial statements be review for completeness prior to issuance.

Auditee Response:

Concur, the Business Office has taken steps that will help reduce the potential for these types of errors. The College is reviewing the requirements relating to the treatment of zero interest loans and will make the necessary changes.

Sincerely,

Justin M. Cross
Dean of Administrative Services
Dawson Community College